

Message Text

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ACTION EB-08

INFO OCT-01 AF-10 ARA-06 EUR-12 EA-07 NEA-10 ISO-00
ERDA-05 AID-05 CEA-01 CIAE-00 COME-00 DODE-00
FEAE-00 FPC-01 H-01 INR-07 INT-05 L-03 NSAE-00
NSC-05 OMB-01 PM-04 OES-06 SP-02 SS-15 STR-04
TRSE-00 ACDA-07 NSCE-00 SSO-00 USIE-00 INRE-00
ERDE-00 PA-01 PRS-01 XMB-02 OPIC-03 /133 W
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O R 121604Z APR 77
FM AMEMBASSY LAGOS
TO SECSTATE WASHDC NIACT IMMEDIATE 411
INFO AMEMBASSY ABU DHABI
AMEMBASSY ALGIERS
AMEMBASSY BEIRUT
AMEMBASSY DOHA
AMEMBASSY JAKARTA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LIBREVILLE
AMEMBASSY LONDON
AMEMBASSY QUITO
AMEMBASSY TEHRAN
AMEMBASSY TRIPOLI
AMEMBASSY VIENNA
AMCONSUL DHAHRAN

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E.O. 11652: N/A
TAGS: ENRG, NI
SUBJECT: NIGERIA'S PETROLEUM INVESTMENT INCENTIVES

REF: LAGOS 3939

1. ADDITIONAL DETAILS CONCERNING TERMS OF NEW PETROLEUM
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INVESTMENT INCENTIVES OBTAINED IN DISCUSSIONS WITH OIL COMPANY
OFFICIALS OVER HOLIDAY WEEKEND.

2. ACCORDING TO NOTES TAKEN BY ONE COMPANY, NIGERIAN SIDE IN
MEETINGS WITH COMPANIES LED BY DIRECTOR OF PETROLEUM RESOURCES
F.R.A. MARINHO AND INCLUDED O.A. OKANLA AND J.A.I. IRO FROM
MINISTRY OF PETROLEUM RESOURCES (MPR), I.O. ADEBEKON FROM

BOARD OF INLAND REVENUE, AND THREE OTHER UN-NAMED OFFICIALS.

3. MARINHO MADE SHORT SPEECH, WHICH APPARENTLY SAME FOR ALL COMPANIES, IN WHICH HE SAID FMG OBJECTIVES IN GRANTING INCENTIVES WERE: TO STIMULATE FURTHER EXPLORATION IN EXISTING AS WELL AS NEW CONCESSIONS, BOTH ONSHORE AND OFFSHORE; TO ENCOURAGE PROPER DEVELOPMENT OF RESERVOIRS AND ACHIEVEMENT OF OPTIMUM RECOVERY; AND TO INCREASE FINANCIAL REWARDS TO COMPANIES WILLING TO INVEST MORE IN NIGERIA.

4. FISCAL TREATMENT PROPOSED BY MARINHO FOR EXPLORATION WELLS,SUCCESSFUL OR NOT, AND FIRST TWO APPRAISAL WELLS WAS AS STATED PARAGRAPH 2A OF REFTEL. REDUCTION OF RATE OF ROYALTY PROPOSEDFOR OIL PRODUCED FROM WELLS IN WATER MORE THAN 50 METERS DEEP ALSO AS STATE PARAGRAPH 2D OF REFTEL. HOWEVER, PARAGRAPHS 2B AND 2C OF REFTEL IN ERROR REGARDING FISCAL TREATMENT OF DEVELOPMENT OF WELLS AND OTHER PRODUCING FACILITIES. MARINHO SAID NO DISTINCTION WILL BE MADE, AS IS CURRENTLY THE CASE, BETWEEN DEVELOPMENT WELLS, PIPELINES, BUILDINGS, PLANT AND OTHER FACILITIES. ALL WILL BE SUBJECT TO UNIFORM RATE OF DEPRECIATION IN RANGE OF 15 TO 20 PERCENT ON STRAIGHT LINE BASIS. ONE PERCENT OF TOTAL VALUE OF EACH ASSET MUST CONTINUE TO BE RETAINED ON BOOKS AND CANNOT BE REMOVED WITHOUT CERTIFICATE OF ASSET DISPOSAL FROM COMMISSIONER OF PETROLEUM RESOURCES AND DUE NOTICE TO INLAND REVENUE. (ACCORDING COMPANY OFFICIAL, THIS TOKEN VALUE SIMPLY BOOKKEEPING DEVICE TO LIMITED OFFICIAL USE

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FACILITATE ACQUISITION BY FMG OF REMAINING COMPANY ASSETS AT SOME FURTURE DATE IF DESIRED.)

5. RE PROPOSAL FOR LOWER PETROLEUM PROFITS TAX RATE FOR NEW INVESTMENT BY NEW COMPANIES DESCRIBED PARAGRAPH 2E OF REFTEL, COMPANIES AGREE MARINHO MADE IT PRETTY CLEAR THIS INCENTIVE WOULD APPLY ONLY TO NEWCOMERS WHO HAVE NOT YET STARTED PRODUCTION IN NIGERIA AND WOULD NOT APPLY TO NEW INVESTMENTS BY ESTABLISHED OIL PRODUCING COMPANIES. THUS, JAPAN PETROLEUM, WHICH HAS FIVE OFFSHORE OILPROSPECTING CONCESSIONS AND HAS DRILLED A FEW SUCCESSFUL EXPLORATION WELLS, WOULD BE VIOUS QUALIFIER. DEMINEX AND OCCIDENTAL, WHO HAVE RELINQUISHED THEIR CONCESSIONS, MIGHT ALSO QUALIFY IF THEY WERE WILLING AND ABLE TO GET THEIR CONCESSIONS BACK. SINCE THE REDUCED TAX RATE INCENTIVE APPLIES ONLY UNTIL PRE-PRODUCTION COSTS OF NEW INVESTMENT HAVE BEEN FULLY AMORTIZED, PAN OCEAN MIGHT QUALIFY- ALTHOUGH PAN OCEAN BEGAN PRODUCTION A FEW MONTHS AGO, IT HAS ONLY ONE INVESTMENT IN A SINGLE FIELD AND HAS

CLEARLY NOT RECOVERED ITS PRE-PRODUCTION EXPENSES FROM THAT. HOWEVER, ESTABLISHED PRODUCERS, ESPECIALLY THE LARGER ONES LIKE SHELL-BP, GULF, MOBIL AND AGIP/PHILLIPS, WOULD BE UNABLE TO BENEFIT FROM THIS INCENTIVE. SINCE EACH TEN PERCENT CUT IN PRESENT 85 PERCENT TAX RATE WOULD RESULT IN ONE DOLLAR INCREASE IN PER BARREL PROFIT MARGIN, SOME COMPANY OFFICIALS NEVERTHERLESS FIND IT HARD TO BELIEVE FMG INTENDS EITHER GIVE AWAY SO MUCH REVENUE OR CREATE SUCH DISPARITY IN TREATMENT OF COMPANIES. MOBIL

IN PARTICULAR FEELS SUCH TREATMENT WOULD BE UNFAIR SINCE ALL OF ITS PRODUCTION IS FROM RELATIVELY NEW OFFSHORE FACILITIES ON WHICH IT HAS NOT YET FULLY AMORTIZED PRE-PRODUCTION COSTS. HOWEVER, SHELL-BP MANAGER POINTED OUT THAT IT NOT POSSIBLE FOR MAJOR PRODUCERS TO INDENTIUP INCOME RESULTING FROM OTHER INCOME NOR POSSIBLE TO OPERATE UNDER TWO DIFFERENT RATES OF TAX. SHELL-BP OFFICIAL OBSERVED LIMITED OFFICIAL USE

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WRYLY THAT WHATEVER INTERPRETATIONS OTHER COMPANIES MAY HOPE CAN APPLIED TO THEIR SITUATIONS, IT CRYSTAL CLEAR THAT NONE OF THE BEST GOODIES IN INCENTIVE PACKAGE ARE INTENDED FOR HIS COMPANY.

6. REF NEW CONCESSIONS MENTIONED PARAGRAPH 2F REFTTEL, ONLY PAN OCEAN MANAGER RECALLED MARINHO SAYING THAT NEW CONCESSIONS WOULD BE OFFERED WITHIN THREE MONTHS. OTHER COMPANY OFFICIALS SAY NEW CONCESSIONS NOT SPECIFICALLY TOUCHED ON IN THEIR MEETINGS. PAN OCEAN, OWNED BY CRUDE-SHORT MARATHON OIL, IS NOT HAPPY WITH PERFORMANCE OF WELLS ON ITS ONE ONSHORE CONCESSION AND WOULD BE AMONG MOST LIKELY COMPANIES TO WANT AND BE OFFERED INCENTIVE IN FORM OF NEW ACREAGE.

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7. REFTEL DOESNOT INCLUDE WHAT IS PERHAPS KEY INCENTIVE
FOR ESTABLISHED PRODUCING COMPANIES, A PROPOSAL TO
INTRODUCE INVESTMENT TAX CREDIT. MARINHO OUTLINED
TWO-TIER SYSTEM, COMPRISING TAX CREDIT. EQUIVALENT TO
BETWEEN 5 AND 10 PERCENT OF THE AMOUNT OF AN INVESTMENT
IN NEW ONSHORE PRODUCTION, OR OFFSHORE PRODUCTION IN WATER
UP TO 50 METERS DEEP AND A TAX CREDIT OF BETWEEN 20
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AND 25 PERCENT FOR INVESTMENT IN NEW OFFSHORE PRODUCTION
IN WATER OVER 50 METERS DEEP. (50 METERS REPRESENTS
APPROXIMATE OUTER LIMIT OF CURRENT OFFSHORE PRODUCTION.)
TAX CREDIT WOULD BE DEDUCTIBLE DOLLAR FOR DOLLAR FROM
COMPANY'S OVERALL PETROLEUM PROFITS TAX BILL.

8. COMPANIES BELIEVE INTENT OF TAX CREDIT IS TO RELIEVE
PROBLEM OF HEAVY FRONT ENDLOADING OF PRESENT INVESTMENT.
COMPANIES NOW MAKE LARGE OUTLAYS FOR FIRST SEVERAL YEARS
WITH LITTLE OR NO OFFSETTING CASH FLOW. THIS IS IN PART
DUE TO NIGERIAN ACCOUNTING SYSTEM UNDER WHICH BOARD OF
INLAND REVENUE ENTERS AN INVESTMENT ON BOOKS AS CAPITAL
ASSET ENTITLED TO DEPRECIATION ONLY IN THE YEAR DURING
WHICH INVESTMENT IS COMPLETED AND PRODUCTION BEGINS.
TAX CREDIT COULD GENERATE WELCOME EARLY CASH FLOW.
HOWEVER, COMPANIES WERE GIVEN NO CLEAR INDICATION BY

MARINHO WHETHER PROPOSED TAX CREDIT WOULD BE DEDUCTIBLE
IN EACH YEAR THAT NEW INVESTMENT INJECTED INTO GIVEN
PROJECT, STARTING FROM FIRST YEAR, OR ONLY WHEN TOTAL
INVESTMENT COMPLETED AND PROJECT COMES ONSTREAM.
SHELL-BP IN PARTICULAR IS ALSO CONCERNED ABOUT
CHANCES THAT LOWER TIER INVESTMENT TAX CREDIT WHICH WILL APPLY
TO ALMOST ALL OF ITS FUTURE OPERATIONS MAY BE SUBSTITUTE
FOR, RATHER THAN ADDITION TO, THOSE ALLOWANCES WHICH IT
ALREADY RECEIVES FOR PRE-PRODUCTION EXPENSES UNDER PRESENT
FISCAL TERMS. WHILE 20 TO 25 PERCENT TAX CREDIT FOR DEEP
OFFSHORE INVESTMENT SOUNDS QUITE ATTRACTIVE, SHELL-BP
MANAGER SAID 5 TO 10 PERCENT TAX CREDIT WHICH HE CAN
EXPECT HARDLY SETS HIS PULSE RACING.

9. MARINHO REQUESTED COMMENTS AND ALTERNATIVE SUGGESTIONS
FROM COMPANIES BY FRIDAY, APRIL 15, AND TOLD COMPANIES
NOT TO COME OUT IN FAVOR OF THE HIGH SIDE OF EVERY ONE
OF HIS PROPOSALS. HE REFUSED REQUEST FOR EXTENSION OF
TIME ON GROUNDS MPR MUST SUBMIT REPORT ON INCENTIVES
TO FEDERAL EXECUTIVE COUNCIL BY APRIL 21. COMPANIES
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NOW ENGAGED IN INTENSE CONSULTATIONS WITH HOME OFFICES
TO CALCULATE FINANCIAL IMPACT ON THEM OF VARIOUS
INCENTIVES.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, INVESTMENT OPPORTUNITIES
Control Number: n/a
Copy: SINGLE
Sent Date: 12-Apr-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977LAGOS04025
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770126-0986
Format: TEL
From: LAGOS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770467/aaaacfpw.tel
Line Count: 254
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 6a48bda6-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 LAGOS 3939
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 15-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2834315
Secure: OPEN
Status: NATIVE
Subject: NIGERIA'S PETROLEUM INVESTMENT INCENTIVES
TAGS: ENRG, NI
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/6a48bda6-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009